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DEPT FOR EEB/ESC DAS DOUG HENGEL AND NEA/ARP JOSH HARRIS

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SUBJECT: FINANCIAL TROUBLE AT TWO PROMINENT SAUDI BUSINESSES

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DHAHRAN, U.S. STATE DEPARTMENT.
REASON: 1.4 (a), (d)

CLASSIFIED BY: DHAHRAN CONSUL GENERAL JOSEPH KENNY, REASONS 1.4
(B) AND (D).

SUMMARY AND COMMENT

¶1. (S/NF) Recent financial trouble at two prominent Saudi conglomerates has shaken public confidence in the solvency of some of the Kingdom's commercial families but poses no real threat to the economy. Two Saudi firms, Ahmad Hamad Al-Gosaibi and Brothers Co (AH Al-Gosaibi) and the Saad Group, have defaulted on roughly \$7 billion of nearly \$17 billion in debt. AH Al-Gosaibi, whose Bahraini banking arm defaulted, owes a total of 34.6 billion Saudi riyals (\$9.2 billion) to allegedly more than 100 banks, although it has not defaulted on all of this. Saud Al-Gosaibi (strictly protect), chairman of AH Al-Gosaibi, blames his brother-in-law, Saad Group's owner Maan Al-Sanea -- previously involved heavily in both firms' business operations -- for both their current difficulties. We must stress that to date Saud Al-Gosaibi is our only source of information on these allegations. End summary and comment.

AL-GOSAIBI FAMILY'S FINANCIAL DIFFICULTIES

¶2. (U) One of the wealthiest families in Saudi Arabia, the Gosaibis own Ahmad Hamad Al-Gosaibi and Brothers (AH Al-Gosaibi), a holding company with interests in the banking, real estate, and manufacturing sectors. Founded in the 1940s as a money exchange business, the company is the Saudi distributor of PepsiCo products, has the Saudi distribution rights for American Express Gold cards and travelers' checks, and owns a sizeable share of several major Saudi banks.

¶3. (S/NF) Beset by financial difficulties in recent months, AH Al-Gosaibi and their Bahraini banking subsidiary, The International Banking Corporation (TIBC), have defaulted on

approximately \$2 billion in debt. The Al-Gosaibi family has accused another prominent Saudi businessman related to them by marriage, Maan Al-Sanea, of bearing responsibility for their losses due to a combination of forgery, fraud, and mismanagement. Al-Sanea, the son-in-law of recently deceased Gosaibi patriarch Sulaiman Al-Gosaibi, was formerly the director of TIBC and heavily involved with the Gosaibis' business affairs.

MAAN AL-SANEA'S RELATION TO THE AL-GOSAIBI'S

¶4. (S/NF) Maan Al-Sanea was ranked number 62 among the world's richest people by Forbes in March, with an estimated net worth of \$7 billion. Al-Sanea is the chairman of the Saad Group, which has interests in construction and finance in Saudi Arabia's Eastern Province and throughout the Gulf. Al-Sanea owned a substantial portion of HSBC (according to some sources up to around five percent, but now much less, reportedly around one percent). Sulaiman Al-Gosaibi, the deceased family patriarch, placed a great deal of trust in Al-Sanea, allowing him to run a significant portion of the family's business affairs. Sulaiman's son, Saud Al-Gosaibi, current chairman of AH Al-Gosaibi, has initiated an investigation into Al-Sanea's role in their company's defaults.

¶5. (C) Apart from the Al-Gosaibis' difficulties, Al-Sanea's companies have had problems of their own. Hit by the collapse of many of their speculative investments and a dearth of liquidity, by late May Al-Sanea's companies had defaulted on \$5.5 billion in debt. They have at least another \$9 billion in outstanding loans, the majority of which is held by Saudi and Emirati banks. However, the Saad Group has approached its

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creditors regarding restructuring their debt and, with more than \$30 billion in assets at the end of 2008 according to the Middle East Economic Digest, it is unlikely these creditors will lose much. The Saudi Arabian Central Bank (SAMA) froze Al-Sanea's bank accounts throughout the Kingdom without explanation on May 28.

RIPPLE EFFECTS IN THE FINANCIAL SECTOR

¶6. (C) In response to their financial difficulties, both AH Al-Gosaibi and the Saad Group were downgraded from investment grade to junk by three major international credit rating agencies. They were subsequently de-listed as the agencies said there was insufficient information available to accurately grade them. The situation was exacerbated by a lack of transparency as evidenced by the fact that one rating agency was unaware of the Saad Group's problems until less than 24 hours before downgrading them to junk status. While most bankers in the region seem to feel there are few other major families with similar problems, others are more concerned. One contact informed us that banks are now charging an additional 100 to 200 basis points on loans to large family conglomerates as a hedge against the lack of transparency.

¶7. (C) Several Saudi banks are exposed to AH Al-Gosaibi and the Saad Group, particularly local HSBC-affiliate SABB and the Saudi Investment Bank, although none to a degree threatening their

viability. Total Saudi exposure has been estimated at around \$3 billion, with Emirati banks also exposed for approximately the same amount. Large family conglomerates make up a substantial portion of the non-petroleum Saudi economy; however, at this point their combined problems do not appear to pose a serious threat to the Kingdom's economy.

DOCUMENTS POUCHED TO EEB

18. (S/NF) Export Import Bank Director Bijan Kian visited Dhahran recently and met with Saud Al-Gosaibi. Saud Al-Gosaibi provided a large quantity of documents to Kian, which he alledged substantiated his claims of Maan Al-Sanea's manipulation of the company's books and misrepresentation, via forgery and other means, to make large payments to individuals and conceal financial transactions. These actions supposedly led to the company's inability to make debt repayments. The Al-Gosaibi's have engaged Deloitte Corporate Finance (UAE Office) to assist with their investigation. He claimed at the time that the documents implicated a number of individuals. We have sent the documents to EEB/ESC by classified pouch for review (pouch receipt number sent septel). Upon his return to Washington, Director Kian will explain the documents and their relevance. Please share with counterparts in the INR Bureau and the Department of Treasury.

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